

## Message Text

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ACTION XMB-04

INFO OCT-01 EUR-12 ISO-00 EB-08 COME-00 TRSE-00 OMB-01

AID-05 CIAE-00 INR-07 NSAE-00 /038 W

-----111007Z 022231 /20

R 091245Z APR 77

FM AMEMBASSY BELGRADE

TO SECSTATE WASHDC 203

INFO AMCONSUL ZAGREB

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E.O. 11652: N/A

TAGS: EFIN, ETRD, ECON, BEXP, BTIO, OVIP, YO, US

SUBJECT: EXIMBANK VISIT YUGOSLAVIA

REF: STATE 42373

SUMMARY. IN HEAVY SCHEDULE OF WORTHWHILE AND OPPORTUNE MEETINGS MARCH 14-25 WITH GOVERNMENT OFFICIALS, BANKERS AND INDUSTRIALISTS, EXIMBANK TEAM LED BY VICE PRESIDENT ALBRIGHT OBTAINED MUCH NEW INFORMATION, OFTEN PROVIDED WITH UNUSUAL FRANKNESS, ON ECONOMIC TRENDS, SYSTEM CHANGES, DEVELOPMENT PLANS, AND PRIORITY PROJECTS. EXIMBANK TEAM'S EXPLANATIONS OF CURRENT POLICIES AND PROCEDURES SUBDUED YUGOSLAV CONCERN THAT U.S. FINANCING ARRANGEMENTS WERE NOT COMPETITIVE. ESPECIALLY VALUABLE WERE VISITS TO MACEDONIA, BOSNIA-HERZEGOVINA, KOSOVO, CROATIA AND VOJVODINA, WHICH EVEN MORE THAN BELGRADE MEETINGS, GENERATED INSIGHT INTO ACTUAL CO-ORDINATION OF DEVELOPMENT PLANS AND THE ADMINISTRATION OF NEW FOREIGN EXCHANGE AND CREDIT PROVISIONS. MEETINGS IN REPUBLICS ALSO PRODUCED SUBSTANTIAL NUMBER OF TRADE LEADS. A BONUS WAS EXIMBANK TEAM'S COOPERATION IN HELPING TO LAUNCH MAJOR EXPORT PROMOTION CAMPAIGN. A POINT REQUIRING FOLLOW-UP IS YUGOSLAV VIEW THAT THEIR NEW LEGISLATION WILL NO LONGER PERMIT NATIONAL BANK "SUPERGUARANTEE" OF EXIMBANK FINANCING. THOUGH

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YUGOSLAVS REQUESTED EARLY DIALOGUE, THEY PROMISED NO ABRUPT CHANGE IN CURRENT SUPERGUARANTEE PROCEDURES. END SUMMARY.

1. ECONOMIC TRENDS: THE EXIMBANK TEAM CONFIRMED THE SUCCESSFUL TURNAROUND OF THE YUGOSLAV ECONOMY AND BALANCE OF PAYMENTS. IN 1977, THE TEAM LEARNED THE YUGOSLAVS WILL ALLOW A CURRENT ACCOUNT DEFICIT OF 300-500 MILLION DOLLARS AND, CONTRARY TO

PRESS REPORTS, MAKE SOME REDUCTION IN THEIR RESERVES. THE REBOUND OF INDUSTRIAL PRODUCTION WHICH COMMENCED IN LATE 1976 WILL LIKELY CONTINUE BUT PROCE PRESSURES WILL BE STRONG AND THE YUGOSLAVS MUST KEEP A CLOSE WATCH ON INFLATION. SPECIFIC INFORMATION GLEANED DURING THE VISIT IS BEING INCORPORATED INTO THE EMBASSY'S NEXT ECONOMIC TRENDS REPORT (ADVANCE COPY BEING POUCHED WEEK OF APRIL 11).

2. SYSTEMS CHANGES: THE VISIT CAME AT A TIMELY MOMENT TO DISCUSS THE NEW YUGOSLAV BANKING LEGISLATION AS WELL AS THREE NEW LAWS PASSED MID-MARCH (BUT JUST PUBLISHED) ON FOREIGN TRADE, FOREIGN EXCHANGE/CREDIT RELATIONS, AND THE OPERATIONS OF YUGOSLAV ENTERPRISES ABROAD. THE BANKING LAW REQUIRES BANKS TO CONCLUDE SELF-MANAGEMENT AGREEMENTS WITH THE ENTERPRISES WHICH ARE THEIR FOUNDERS. IT WAS GENERALLY FELT BY THE YUGOSLAVS THAT THIS CHANGE, COUPLED WITH PROVISIONS IN THE FOREIGN/EXCHANGE/LAW, WOULD BRING BANKING OPERATIONS MORE INTO TUNE WITH DEVELOPMENT PLANS WHILE GIVING THE BANKS IN TURN A GREATER REGULATORY ROLE IN PROJECT COORDINATION, PARTICULARLY FOREIGN CREDIT APPLICATIONS. SOME YUGOSLAVS FELT THAT ONE EFFECT OF THE BANKING LEGISLATION WOULD BE AN EVENTUAL REDUCTION IN THE NUMBER OF COMMERCIAL BANKS DEALING IN FOREIGN TRANSACTIONS. TWO OR THREE BANKS NOTED THEIR INTENTION TO MOVE INTO THE FOREIGN EXCHANGE MARKETS.

3. DEVELOPMENT PLANS: MANY PLANS FOR SPECIFIC PROJECTS TURNED OUT TO BE SURPRISINGLY MORE ADVANCED AND COORDINATED THAN THE VAGUENESS OF THE FIVE-YEAR PLAN AND INDUSTRIAL SOCIAL ACCORDS WOULD INDICATE. IN THE REPUBLICS, THE GOVERNMENT, THE LIMITED OFFICIAL USE

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FINANCIAL SECTOR AND INDUSTRY APPEARED VERY MUCH IN TUNE. THE EXIMBANK TEAM DISCOVERED SOME CASES OF REPUBLICS HAVING GIVEN UP OR REDUCED THE SCOPE OF PET PROJECTS TO PREVENT NATIONWIDE OVER CAPACITY. THE ENTERPRISES INTERVIEWED BY PROJECTS FOR WHICH THE "FINANCIAL CONSTRUCTION" HAD BEEN COMPLETED AND THOSE WHICH HAD BEEN REGISTERED UNDER INDUSTRIAL DEVELOPMENT PLANS BUT STILL NOT APPROVED FOR INVESTMENT. OF COURSE, THE SYSTEM NEEDS TO BE TESTED FURTHER AND, FROM OUR STANDPOINT, MUCH CLARIFICATION IS STILL NEEDED ON MANY ASPECTS OF THE SYSTEM CHANGES.

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4. EXIMBANK PROGRAMS AND POLICIES: YUGOSLAV BANKERS AND BUSINESS EXECUTIVES ALIKE WELCOMED THE EXIMBANK TEAM'S EXPLANATION OF CURRENT POLICIES AND PROGRAMS. ALTHOUGH THE TEAM STRESSED THAT EXIMBANK'S ROLE IS TO SUPPLEMENT RATHER THAN SUBSTITUTE COMMERCIAL BANK FINANCING, THE YUGOSLAVS FELT THAT EXIMBANK TERMS AND CONDITIONS ON PROJECT LOANS IN PARTICULAR WOULD BRING U.S. FINANCING MORE INTO LINE WITH EUROPEAN AND JAPANESE COMPETITION. ON PROCEDURAL ASPECTS, EXIMBANK EXPLANATIONS MITIGATED FEELING THAT EXIMBANK PROCEDURES WERE UNNECESSARILY CUMBERSOME AND LENGTHY.

5. AMONG THE MANY SPECIFIC PROJECT LEADS DEVELOPED WERE A GOOD NUMBER IN THE AGRICULTURAL AND FOOD PROCESSING SECTOR, WHICH HAS BEEN RELATIVELY UNEXPLORED BY U.S. FIRMS. THE EXIMBANK TEAM WAS OF ASSISTANCE IN ALLOWING TIME IN ITS SCHEDULE TO MEET WITH EXPERTS IN THIS SECTOR AND TO HELP US BEGIN PROMOTION OF A DEPARTMENT OF COMMERCE EXHIBIT SCHEDULED FOR THE NOVI SAD AGRICULTURAL FAIR IN MAY.

6. EXIMBANK "SUPERGUARANTEE": THE SEEMING IMPROVEMENT IN THE DECISION PROCEDURE, INCLUDING THE ENHANCED ROLE OF THE COMMERCIAL BANKS WOULD APPEAR ENCOURAGING FOR THE EXIMBANK AND U.S. BIDDERS, BUT THE YUGOSLAVS ALSO REQUESTED CHANGES IN THE CURRENT SUPERGUARANTEE PROCEDURE ADMINISTERED THROUGH LIMITED OFFICIAL USE

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THE NATIONAL BANK. THE FINANCE SECRETARIAT AS WELL AS THE NATIONAL BANK PRESSED THIS MATTER AT THE BEGINNING OF THE VISIT AND AT THE WRAP-UP SESSION ON MARCH 25TH. THE YUGOSLAVS STATED THAT A NATIONAL BANK SUPERGUARANTEE IS INCONSISTENT WITH THEIR CURRENT LEGISLATION. THEY ASKED THAT EXIMBANK INSTEAD ACCEPT "SUPERGUARANTEES" FROM COMMERCIAL BANKS OF EXIM CHOOSING. SUCH GUARANTEES WOULD BE BACKED BY ALL OF THE COMMERCIAL BANKS' FOUNDING MEMBERS AND SUPPORTED BY

THE REPUBLICS.

7. IN RATHER EXTENSIVE EXCHANGES, ALBRIGHT AND THE CHARGE STRESSED THE IMPORTANCE OF EXISTING PROCEDURES, AS CONFIRMED BY IMPRESSIVE LEVEL OF EXIMBANK EXPOSURE IN YUGOSLAVIA. FINANCE SECRETARY CEMOVIC PERSONALLY AGREED THAT THERE WOULD BE NO ABRUPT CHANGE IN THE OPERATING AGREEMENT, AND IN THE WRAP-UP SESSION THE YUGOSLAVS SUGGESTED FORMATION OF A WORKING GROUP WHICH WOULD BEGIN EARLY DIALOGUE. IT WAS LEFT THAT ALBRIGHT WOULD EXPLAIN THE YUGOSLAV POSITION FULLY TO EXIMBANK MANAGEMENT AND REPLY THROUGH THE EMBASSY, POSSIBLY SUGGESTING TERMS OF REFERENCE FOR DIALOGUE. MEANWHILE, THE YUGOSLAVS CONFIRMED, OPERATIONS WOULD CONTINUE AS UP TO NOW WHILE THE DIALOGUE PROCEEDED. (SEE BELGRADE 2160 RE POSSIBLE CALL BY CEMOVIC ON NEW EXIMBANK CHAIRMAN IN LATE APRIL.)

8. EMBASSY COMMENT: WE BELIEVE THAT THE EXIMBANK VISIT ACHIEVED ITS OBJECTIVES AND ARE PARTICULARLY PLEASED THAT THE GROUP HAD TIME FOR REPUBLIC VISITS WHICH GENERATED CONSIDERABLE INFORMATION. PROVIDED THE DIALOGUE PROCEEDS SUCCESSFULLY ON THE SUPERGUARANTEE QUESTION, THE EXIMBANK VISIT WILL GENERATE GOOD PAY-OFF IN NEW UNDERSTANDING OF THE YUGOSLAV SYSTEM AND GREATER ACCESS FOR U.S. FIRMS IN THIS MARKET. THE MANY LEADS ON MAJOR PROJECTS ARE LISTED IN MEMCONS EN ROUTE TO STATE, COMMERCE AND EXIMBANK, AND EMBASSY WILL PROVIDE ADDITIONAL REPORTING AS PROJECT PLANS FIRM UP ON THE BASIS OF THE VALUABLE RESULTS OF THIS VISIT, WE HOPE THAT THE LIMITED OFFICIAL USE

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EXIMBANK CAN MAINTAIN A SCHEDULE OF ANNUAL VISITS TO YUGOSLAVIA.  
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## Message Attributes

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